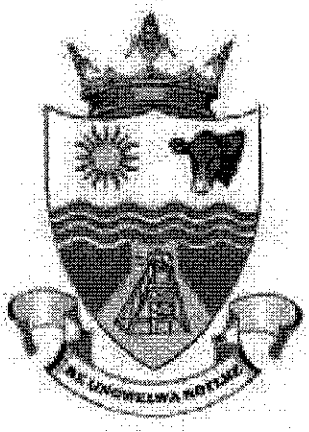

JOE MOROLONG
LOCAL MUNICIPALITY

JOE MOROLONG LOCAL MUNICIPALITY

(Registration number NC 451)
AUDITED ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Joe Morolong Local Municipality

(Registration number NC 451)
Annual Financial Statements for the year ended June 30, 2014

General Information

Legal form of entity	South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act no 117 of 1998)
Nature of business and principal activities	Joe Morolong Local Municipality is local municipality performing functions as set out in the Constitution (Act no 105 of 1996)
Municipal Council Members	
Mayor	Cllr. M.D. Moremi
Speaker	Cllr. M. Pitso
Chief Whip	Cllr. E.O.Leshope
Executive Members	Cllr. B.M. Mbolekwa Cllr. N. Selebalo Cllr. K. Mosiapoe Cllr. E.O. Leshope
Party Representatives	Cllr. J. Freedman Cllr. M.C. Tihelo Cllr. T.P. Tshipo Cllr. K. Ditshetelo Cllr. S. Segano Cllr. B. Matlhomantsho Cllr. V. Jordan
Ward councillors	Cllr. N. Mokweni Ward 01 Cllr. O. Kaotsane Ward 02 Cllr. S.Ortel Ward 03 Cllr. K. Shuping Ward 04 Cllr. S. Matshidiso Ward 05 Cllr. G. Sephekolo Ward 06 Cllr. K.Modise Ward 07 Cllr. E. Molawa Ward 08 Cllr. G.Moriri Ward 09 Cllr. D.Kubang Ward 10 Cllr. P. Segaetsho Ward 11 Cllr. S. Moagi Ward 12 Cllr. H. Kgopodithata Ward 13 Cllr. D. Josop Ward 14 Cllr. K.Teteme Ward 15
Mayor	
Council committees	
1. Finance, Human Resources and Administration	
Chairperson	Cllr. K.J. Mosiapoe
Committee Members	Cllr. V. Jordan Cllr. K. Shuping Cllr. G. Moriri Cllr. N. Mokweni Cllr. T. Teteme Cllr. O. Kaotsane
2. IDP, Planning and Development	
Chairperson	Cllr. E.O.Leshope
Committee Members	Cllr. M.E. Molawa Cllr. S.P. Segaetsho Cllr. T.M. Mokgoje Cllr. J. Segano Cllr. K. Ditshetelo Cllr. B. Matlhomantsho
3. Infrastructure	

General Information

Chairperson	Cllr. B.M. Mbolekwa
Committee Members	Cllr. D.S. Josop
	Cllr. M.C. Tihelo
	Cllr. T.P. Tshipo
	Cllr. K.J. Modise
	Cllr. O. Kgopodithata
4. Community Service	
Chairperson	Cllr. N. Selebalo
Committee Members	Cllr. J. Freedman
	Cllr. S.J. Matshidiso
	Cllr. S. Ortel
	Cllr. D.C. Kubang
	Cllr. M.G. Sephekolo
Grading of local authority	Low capacity municipality
Demarcation code	NC451
Municipal Manager	Mr. T.M. Bloom
Chief Finance Officer (CFO)	Mrs. B.D. Motlhaping
Business address	D320 Cardington Road Churchill Village 8474
Postal address	Private Bag X 117 Mothibistad 8474
Bankers	Standard Bank Limited Absa Bank Limited First National Bank
Auditors	Auditor General of South Africa
Telephone number	(053) 773 9300
Fax number	(053) 773 9350
Email adress	bloomt@joemorolong.gov.za
Web adress	www.joemorolong.gov.za

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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Abbreviations

ASB	Accounting Standards Board
D.W.A.F.	Department of Water Affairs and Forestry
DBSA	Development Bank of South Africa
ES	Equitable Share
EPWP	Expanded Public Works Programme
FMG	Finance Management Grant
GRAP	Generally Recognized Accounting Practice
HDF	Housing Development Fund
IDP	Infrastructure Development Plan
INEP	Integrated National Electrification Programme
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
LG SETA	Local Government Sector Education Training Programme
MEC	Member of the Executive Council
ME's	Municipal Entities
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal Systems Improvement Grant
PAYE	Pay As You Earn
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund
VAT	Value Added Taxation
WSOG	Water Services Operating Subsidy Grant

Relevant Legislation

Municipal Finance Management Act (Act no 56 of 2003)
Division of Revenue Act
The Income Tax Act
Value Added Tax Act
Municipal Structures Act (Act no 117 of 1998)
Municipal Systems Act (Act no 32 of 2000)
Municipal Planning and Performance Management Regulations
Water Services Act (Act no 108 of 1997)
Housing Act (Act no 107 of 1997)
Municipal Property Rates Act (Act no 6 of 2004)
Electricity Act (Act no 41 of 1987)
Skills Development Levies Act (Act no 9 of 1999)
Employment Equity Act (Act no 55 of 1998)
Unemployment Insurance Act (Act no 30 of 1966)
Basic Conditions of Employment Act (Act no 75 of 1997)
Supply Chain Management Regulations, 2005
SALGBC - Salary and Wage Collective Agreement
Infrastructure Grants
SALBC Leave Regulations
Labour Relations Act

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and are given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

The annual financial statements set out on pages 6 to 71, which have been prepared on the going concern basis, were approved by the accounting officer and was signed by him:

Mr. T.M. Bloom
Municipal Manager (Accounting Officer)
Joe Morolong Local Municipality
Friday, August 29, 2014

Statement of Financial Position as at June 30, 2014

Figures in Rand	Notes	2014	2013 Restated*
Assets			
Current Assets			
Cash and cash equivalents	9	20,574,304	2,008,111
Inventories	5	1,961,682	1,311,648
Receivables from exchange transactions	8	23,976,432	19,126,221
Receivables from non-exchange transactions	6	1,245,014	11,372,587
VAT receivable	7	-	5,284,058
Total Current Assets		**47,757,432**	**39,102,625**
Non-Current Assets			
Intangible assets	4	314,007	-
Property, plant and equipment	3	1,159,053,993	1,052,532,597
Total Non-Current Assets		**1,159,368,000**	**1,052,532,597**
Total Assets		**1,207,125,432**	**1,091,635,222**
Liabilities			
Current Liabilities			
Bank overdraft	9	5,870,883	4,576,564
Other financial liabilities	10	627,492	626,638
Payables from exchange transactions	13	44,594,014	90,855,498
Provisions	12	692,967	645,049
VAT payable	14	526,114	-
Total Current Liabilities		**52,311,470**	**96,703,749**
Non-Current Liabilities			
Other financial liabilities	10	2,309,959	3,535,993
Provisions	12	1,883,570	1,551,210
Total Non-Current Liabilities		**4,193,529**	**5,087,203**
Total Liabilities		**56,504,999**	**101,790,952**
Net Assets		**1,150,620,433**	**989,844,270**
Net Assets			
Accumulated surplus		1,150,620,433	989,844,270

* See Note 42

Statement of Financial Performance

Figures in Rand	Notes	2014	2013 Restated*
Revenue			
Revenue from exchange transactions			
Rental of facilities and equipment	33	99,655	171,113
Service charges	19	12,505,386	17,231,914
Other income	23	1,007,351	2,627,224
Interest received	28	259,686	123,399
Interest received (trading)		3,726,728	3,384,666
Total revenue from exchange transactions		**17,598,806**	**23,538,316**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	18	3,370,642	6,925,260
Transfer revenue			
Grants & subsidies	20	201,729,305	206,771,558
Public contributions and donations	21	15,000	668,745
Total revenue from non-exchange transactions		**205,114,947**	**214,365,563**
Total revenue	17	**222,713,753**	**237,903,879**
Expenditure			
Bulk purchases	36	11,017,950	8,926,463
Contracted services	34	168,200	82,111
Debt impairment	27	2,336,145	32,577,505
Depreciation and amortisation	30	24,326,278	20,506,873
Employee related costs	25	37,024,772	27,974,272
Finance costs	31	232,093	95,644
General expenses	24	43,138,991	45,819,842
Grants and subsidies paid	35	13,704,816	115,727,061
Remuneration of councillors	26	7,503,760	6,718,185
Repairs and maintenance	29	18,214,760	11,683,146
Total expenditure		**157,667,765**	**270,111,102**
Operating surplus (deficit)		**65,045,988**	**(32,207,223)**
Surplus (deficit) for the year		**65,045,988**	**(32,207,223)**

* See Note 42

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at July 01, 2012	**1,117,781,661**	**1,117,781,661**
Changes in net assets		
Surplus for the year	(32,207,223)	(32,207,223)
Prior year errors	(95,730,168)	(95,730,168)
Total changes	(127,937,391)	(127,937,391)
Opening balance as previously reported	1,082,842,694	1,082,842,694
Adjustments		
Correction of errors - Note 42	2,731,751	2,731,751
Restated* Balance at July 01, 2013 as restated*	**1,085,574,445**	**1,085,574,445**
Changes in net assets		
Surplus for the year	65,045,988	65,045,988
Total changes	65,045,988	65,045,988
Balance at June 30, 2014	**1,150,620,433**	**1,150,620,433**

Notes

* See Note 42

Cash Flow Statement

Figures in Rand	Notes	2014	2013 Restated*
Cash flows from operating activities			
Receipts			
Taxation		3,370,642	2,452,745
Sale of goods and services		45,558,125	28,269,500
Grants		201,744,305	190,377,626
Interest income		259,686	123,399
Consumers and other receipts		3,255,096	3,255,096
		254,187,854	224,478,366
Payments			
Employee costs		(44,528,532)	(34,692,457)
Suppliers		(102,249,835)	(166,049,276)
Finance costs		(232,093)	(95,644)
Other cash item		42,465,621	-
		(104,544,839)	(200,837,377)
Net cash flows from operating activities	37	**149,643,015**	**23,640,989**
Cash flows from investing activities			
Purchase of Property, Plant and Equipment	3	(130,778,735)	(246,155,784)
Purchase of other intangible assets	4	(367,226)	-
Increase in investments		-	361,731
Revaluation of assets		-	206,902,734
Net cash flows from investing activities		**(131,145,961)**	**(38,891,319)**
Cash flows from financing activities			
Repayment of other financial liabilities		(1,225,180)	(610,890)
Net cash flows from financing activities		**(1,225,180)**	**(610,890)**
Net increase/(decrease) in cash and cash equivalents		**17,271,874**	**(15,861,220)**
Cash and cash equivalents at the beginning of the year		(2,568,453)	13,292,767
Cash and cash equivalents at the end of the year	9	**14,703,421**	**(2,568,453)**

* See Note 42

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	13,943,000	878,000	**14,821,000**	12,505,386	**(2,315,614)**	51
Rental of facilities and equipment	66,000	-	**66,000**	99,655	**33,655**	
Interest received (trading)	74,700	450,000	**524,700**	3,726,728	**3,202,028**	51
Other income - (rollup)	920,000	-	**920,000**	1,007,351	**87,351**	
Interest received - investment	-	193,000	**193,000**	259,686	**66,686**	
Total revenue from exchange transactions	**15,003,700**	**1,521,000**	**16,524,700**	**17,598,806**	**1,074,106**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	11,684,000	-	**11,684,000**	3,370,642	**(8,313,358)**	51
Government grants & subsidies	94,721,000	4,809,000	**99,530,000**	201,729,305	**102,199,305**	51
Transfer revenue						
Public contributions and donations	-	-	**-**	15,000	**15,000**	
Total revenue from non-exchange transactions	**106,405,000**	**4,809,000**	**111,214,000**	**205,114,947**	**93,900,947**	
Total revenue	**121,408,700**	**6,330,000**	**127,738,700**	**222,713,753**	**94,975,053**	
Expenditure						
Personnel	(35,713,000)	1,256,000	**(34,457,000)**	(37,024,772)	**(2,567,772)**	51
Remuneration of councillors	(7,438,000)	1,072,000	**(6,366,000)**	(7,503,760)	**(1,137,760)**	51
Depreciation and amortisation	(5,615,000)	2,615,000	**(3,000,000)**	(24,326,278)	**(21,326,278)**	51
Finance costs	(900,000)	61,000	**(839,000)**	(232,093)	**606,907**	
Debt impairment	(170,000)	-	**(170,000)**	(2,336,145)	**(2,166,145)**	51
Repairs and maintenance	-	-	**-**	(18,214,760)	**(18,214,760)**	51
Bulk purchases	(11,006,000)	700,000	**(10,306,000)**	(11,017,950)	**(711,950)**	
Contracted Services	(6,106,000)	(4,994,000)	**(11,100,000)**	(168,200)	**10,931,800**	51
Grants and subsidies paid	-	-	**-**	(13,704,816)	**(13,704,816)**	51
General Expenses	(32,750,000)	(16,267,000)	**(49,017,000)**	(43,138,991)	**5,878,009**	51
Total expenditure	**(99,698,000)**	**(15,557,000)**	**(115,255,000)**	**(157,667,765)**	**(42,412,765)**	
Operating surplus	**21,710,700**	**(9,227,000)**	**12,483,700**	**65,045,988**	**52,562,288**	
Transfers recognised - capital	60,224,000	38,274,000	**98,498,000**	-	**(98,498,000)**	51
Contributions	-	8,579,000	**8,579,000**	-	**(8,579,000)**	51
	60,224,000	**46,853,000**	**107,077,000**	**-**	**(107,077,000)**	
Surplus before taxation	**81,934,700**	**37,626,000**	**119,560,700**	**65,045,988**	**(54,514,712)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**81,934,700**	**37,626,000**	**119,560,700**	**65,045,988**	**(54,514,712)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	1,326,000	**1,326,000**	1,961,682	**635,682**	51
Call investment deposits	-	89,000	**89,000**	-	**(89,000)**	
Receivables from non-exchange transactions	-	-	**-**	1,245,014	**1,245,014**	
Consumer debtors	25,457,000	-	**25,457,000**	23,976,432	**(1,480,568)**	
Other debtors	66,000	-	**66,000**	-	**(66,000)**	
Cash and cash equivalents	30,000	3,001,000	**3,031,000**	20,574,304	**17,543,304**	51
	25,553,000	**4,416,000**	**29,969,000**	**47,757,432**	**17,788,432**	
Non-Current Assets						
Property, plant and equipment	80,191,000	896,255,000	**976,446,000**	1,159,053,993	**182,607,993**	51
Intangible assets	90,000	360,000	**450,000**	314,007	**(135,993)**	
	80,281,000	**896,615,000**	**976,896,000**	**1,159,368,000**	**182,472,000**	
Total Assets	**105,834,000**	**901,031,000**	**1,006,865,000**	**1,207,125,432**	**200,260,432**	
Liabilities						
Current Liabilities						
Other financial liabilities	784,000	-	**784,000**	627,492	**(156,508)**	
Payables from exchange transactions	7,150,000	12,073,000	**19,223,000**	44,594,017	**25,371,017**	51
VAT payable	-	-	**-**	526,114	**526,114**	
Provisions	4,706,000	4,000,000	**8,706,000**	692,967	**(8,013,033)**	51
Bank overdraft	-	-	**-**	5,870,883	**5,870,883**	51
	12,640,000	**16,073,000**	**28,713,000**	**52,311,473**	**23,598,473**	
Non-Current Liabilities						
Other financial liabilities	5,744,000	2,006,000	**7,750,000**	2,309,959	**(5,440,041)**	51
Provisions	3,915,000	-	**3,915,000**	1,883,570	**(2,031,430)**	51
	9,659,000	**2,006,000**	**11,665,000**	**4,193,529**	**(7,471,471)**	
Total Liabilities	**22,299,000**	**18,079,000**	**40,378,000**	**56,505,002**	**16,127,002**	
Net Assets	**83,535,000**	**882,952,000**	**966,487,000**	**1,150,620,430**	**184,133,430**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	83,535,000	882,952,000	**966,487,000**	1,150,620,430	**184,133,430**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand and amounts are rounded off to the nearest Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgment is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 12 - Provisions.

Useful lives and residual values

The municipality reassesses the useful lives and residual values of property, plant and equipment, investment property and intangible assets on an annual basis. In reassessing the useful lives and residual values of property, plant and equipment, investment property and intangible assets management considers the condition and use of the individual assets, and base it on industry knowledge, to determine the remaining period over which the asset can and will be used and the residual value.

Long service awards

The long service awards liability arises from the municipality being a party to the Collective Agreement on Conditions of Service for Northern Cape Division of SALGBC. The long service awards plan is a defined benefit plan accounted for in terms of GRAP

Effective interest rate

The municipality uses an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Accounting Policies

1.4 Property, plant and equipment (continued)

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequently all property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	25-30
Improvements	25-30
Plant and machinery	
• Specialist plant and equipment	10-15
• Other plant and equipment	2-15
Furniture and fixtures	
• Office equipment	3-15
• Furniture and Fittings	5-15
Motor vehicles	
• Specialist vehicles	10-15
• Other vehicles	5-15
Infrastructure	
• Roads and paving	10-100
• Pedestrian malls	15-30
• Electricity	15-60
Community	
• Community facilities	25-30
• Recreational facilities	15-30

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Accounting Policies

1.5 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	2 years

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

1.6 Financial instruments (continued)

A concessionary loan is a loan granted to or received by an municipality on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an municipality's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentialy favourable to the entity.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Loans and receivables	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Long term liabilities	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Accounting Policies

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

Financial assets

Held-to-maturity investments are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Loans and receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the effective interest rate method less any impairment, with interest recognised on an effective yield basis.

Financial assets at fair value are initially and subsequently, at the end of each financial year, measured at fair value with the gain or loss being recognised in the statement of financial performance.

Available-for-sale assets are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of financial performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of financial performance.

Financial liabilities

Financial liabilities that are measured at fair value through profit or loss are stated at fair value, with any resulted gain or loss recognised in the statement of financial performance.

Financial liabilities held at amortised cost are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the statement of financial performance by applying the effective interest rate.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Accounting Policies

1.6 Financial instruments (continued)

Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in net assets and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in net assets shall be removed and recognised in the statement of financial performance even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from net assets and recognised in the statement of financial performance is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in statement of financial performance. Impairment losses recognised in the statement of financial performance for an investment in an equity instrument classified as available-for-sale are not reversed through the statement of financial performance.

If, in a subsequent period, the fair value of a debt instrument classified as available-forsale increases and the increase can be objectively related to an event occurring after the impairment loss is recognised in the statement of financial performance, the impairment loss must be reversed, with the amount of the reversal recognised in the statement of financial performance.

Financial Assets carried at amortised cost

Accounts receivable encompass long-term debtors, consumer debtors and other debtors.

Initially accounts receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

An allowance for impairment of accounts receivable is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with IAS whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risks characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to shortterm receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of financial performance.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the statement of financial performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Accounting Policies

1.6 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

The municipality transfers a financial asset if either it transfers the contractual rights to receive the cash flows of the financial asset or it retains the contractual rights to receive the cash flows of the financial asset.

The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the statement of financial performance.

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

Accounting Policies

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

Accounting Policies

1.8 Inventories (continued)

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development.

Subsequent measurement

Consumable stores, raw materials, work-in-progress and finished goods

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge, they are valued at the lower of cost and current replacement cost.

Water inventory

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes, etc). However, water in dams, that are filled by natural resources and that has not yet been treated, that is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, is therefore not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at reporting date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates.

Water and purified effluent are valued by using the first-in-first-out method, at the lowest of purified cost and net realisable
value, insofar as it is stored and controlled in reservoirs at year-end.

Unsold properties

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Cost also includes a portion of overhead costs, if this relates to development.

Accounting Policies

1.8 Inventories (continued)

Other Arrangements

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the statement of financial performance in the year in which they arise. The amount of any reversal of any writedown of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

1.9 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term "contractor" thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by .

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

1.10 Impairment of cash-generating assets (continued)

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. The recoverable amount of a cash-generating asset is the higher of its fair value less costs to sell and its value in use.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.11 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Accounting Policies

1.11 Impairment of non-cash-generating assets (continued)

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow: [Specify criteria]

Identification

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the non-cash generating unit to which the asset belongs is determined. The recoverable service amount of a non-cash generating asset is the higher of its fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Accounting Policies

1.12 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains or losses are accounted for using the corridor method. Actuarial gains and losses are eligible for recognition in the statement of financial performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

1.13 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

Remuneration to employees is recognised in the statement of financial performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

The municipality has opted to treat its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a provision in the statement of financial position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post employement plans.

Accounting Policies

1.13 Employee benefits (continued)

Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

- The business or part of a business concerned;
- The principal locations affected;
- The location, function, and approximate number of employees who will be compensated for terminating their services;
- The expenditures that will be undertaken; and
- When the plan will be implemented.

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and

Accounting Policies

1.14 Provisions and contingencies (continued)

- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it – this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the statement of financial performance as a finance cost as it occurs.

Provisions for restructuring costs

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

(a) The municipality has a detailed formal plan for the restructuring identifying at least:

- The business or part of a business concerned;
- The principal locations affected;
- The location, function, and approximate number of employees who will be compensated for terminating their services;
- The expenditures that will be undertaken; and
- When the plan will be implemented.

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Prepaid water and electricity

Revenue from the sale of water and electricity prepaid meter cards are recognised at the point of sale.

Finance income

Interest earned on investments is recognised in the statement of financial performance on the time-proportionate basis that takes into account the effective yield on the investment.

Rentals received

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Dividends

Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

Tariff charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant advertised tariff. This includes the issuing of licences and permits.

Revenue from agency services

Accounting Policies

Revenue for agency services is recognised on a monthly basis once the revenue collected on behalf of agents has been quantified. The revenue recognised is in terms of the agency agreement.

Sale of goods (including houses)

Revenue from the sale of goods is recognised when all the following conditions have been met:

- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Service charges

Service charges are levied in terms of approved tariffs. Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of
consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property and water consumption, using the tariffs approved by council, and are levied monthly.

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Non exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, without giving approximately equal value to another entity in exchange.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Rates and taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time-proportionate basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Fines

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

Public contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are available for use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

Other donations and contributions

Other donations and contributions are generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from recovery of unauthorised, irregular, fruitless and wasteful expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

Accounting Policies

1.17 Borrowing costs

It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established – the municipality expenses borrowing costs when it is inappropriate to capitalise it. The municipality ceases the capitalisation of borrowing costs when substantially all the activities necessary to prepare the qualifying assets for its intended use have been completed.

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Accounting Policies

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks. Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, highly liquid deposits and net of bank overdrafts. The Municipality categorises cash and cash equivalents as financial assets carried at amortised cost.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

- Credit risk
- Liquidity risk
- Market risk

1.23 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the municipality has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with over investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as either held for trading or available-for-sale, and are measured at subsequent reporting dates at fair value, based on quoted market prices at the reporting date. Where securities are held for trading purposes, unrealised gains and losses are included in net surplus/(deficit) for the period. For available-for-sale investments, unrealised gains and losses are recognised directly in net assets, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in net assets is included in the net surplus/(deficit) for the period.

Accounting Policies

1.24 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.25 Government grants and receipts

Government grants and receipts are recognised as revenue when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- The amount of the revenue can be measured reliably; and
- To the extent that there has been compliance with any restrictions associated with the grant.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the statement of financial performance in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest, it is recognised as interest earned in the statement of financial performance.

Revenue comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.26 Value added Tax (VAT)

The municipality accounts for value added tax on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7(1)(a) of the VAT Act in respect of the supply of goods or services except where the suppliers are specifically zero rated in terms of section 11, exempt in terms of section 12 of the VAT Act or are scoped out for VAT purposes.

The municipality accounts for VAT on a monthly basis.

1.27 Events after reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the annual financial statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in notes to the annual financial statements.

1.28 Commitments

Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance, but are included in the disclosure notes. A distinction is made between capital and current commitments.

Commitments are disclosed for:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.

Accounting Policies

- Items are classified as commitments where the municipality commits itself tofuture transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are be non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality.

1.29 Change on accounting policies estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality restated the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

The municipality identified and disclosed the impact of GRAP standards that have been issued but are not yet effective in accordance with the requirements of GRAP 3.

1.30 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the municipality, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions. The municipality regards all individuals at senior management as key management per the definition of the financial reporting standard.

Close members of the family of key management personnel are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity's decision to terminate an employee's employment before the normal retirement date; or
  - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after April 01, 2013.

The municipality has adopted the standard for the first time in the 2014 annual financial statements.

The adoption of this amendment has not had a material impact on the results of the entity, but has resulted in more disclosure than would have previously provided in the annual financial statements.

The impact of the standard is not material.

GRAP 1 (as revised 2012): Presentation of Financial Statements

Paragraphs .108 and .109 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Statement of Financial Performance as well as the Statement of Changes in Net Assets.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after April 01, 2013

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors

Paragraphs .17 and .18 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Changes in Accounting Policies.

The effective date of the amendment is for years beginning on or after April 01, 2013

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 9 (as revised 2012): Revenue from Exchange Transactions

Paragraphs .11 and .13 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Scope and Definitions.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after April 01, 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 12 (as revised 2012): Inventories

Paragraph .30 was amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after April 01, 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 13 (as revised 2012): Leases

Paragraphs .38 and .42 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Disclosures.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after April 01, 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 16 (as revised 2012): Investment Property

Paragraphs .12, .15, .34, .76, .84 and .87 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Definitions, Measurement at recognition, Disposals and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after April 01, 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 17 (as revised 2012): Property, Plant and Equipment

Paragraphs .44, .45, .72, .75, .79 and .85 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition, Derecognition and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after April 01, 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)

Numerous paragraphs were amended by the improvements to the Standards of GRAP issued previously:

Changes made comprise 3 areas that can be summarised as follows:

- Consequential amendments arising from the alignment of the accounting treatment and text of GRAP 102 with that in IPSAS 31,
- The deletion of guidance and examples from Interpretations issues by the IASB previously included in GRAP102,
- Changes to ensure consistency between the Standards, or to clarify existing principles.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after April 01, 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

IGRAP16: Intangible assets website costs

An entity may incur internal expenditure on the development and operation of its own website for internal or external access. A website designed for external access may be used for various purposes such as to disseminate information, for example annul reports and budgets, create awareness of services, request comment on draft legislation, promote and advertise an entity's own services and products, for example the E-filing facility of SARS that enables taxpayers to complete their annual tax assessments, provide electronic services and list approved supplier details. A website designed for internal access may be used to store an entity's information, for example policies and operating procedures, and details of users of a service, and other relevant information.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The stages of a website's development can be described as follows:

- Planning – includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences.
- Application and infrastructure development – includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing.
- Graphical design development – includes designing the appearance of web pages.
- Content development – includes creating, purchasing, preparing and uploading information, either text or graphic, on the website before the completion of the website's development. This information may either be stored in separate databases that are integrated into (or accessed from) the website or coded directly into the web pages.

Once development of a website has been completed, the operating stage begins. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the website.

When accounting for internal expenditure on the development and operation of an entity's own website for internal or external access, the issues are:

- whether the website is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on Intangible Assets; and
- the appropriate accounting treatment of such expenditure.

This Interpretation of Standards of GRAP does not apply to expenditure on purchasing, developing, and operating hardware (eg web servers, staging servers, production servers and internet connections) of a website. Such expenditure is accounted for under the Standard of GRAP on Property, Plant and Equipment. Additionally, when an entity incurs expenditure on an internet service provider hosting the entity's website, the expenditure is recognised as an expense under the paragraph .93 in the Standard of GRAP on Presentation of Financial Statements and the Framework for the Preparation and Presentation of Financial Statements when the services are received.

The Standard of GRAP on Intangible Assets does not apply to intangible assets held by an entity for sale in the ordinary course of operations (see the Standards of GRAP on Construction Contracts and Inventories) or leases that fall within the scope of the Standard of GRAP on Leases. Accordingly, this Interpretation of Standards of GRAP does not apply to expenditure on the development or operation of a website (or website software) for sale to another entity. When a website is leased under an operating lease, the lessor applies this Interpretation of Standards of GRAP. When a website is leased under a finance lease, the lessee applies this Interpretation of Standards of GRAP after initial recognition of the leased asset.

The effective date of the amendment is for years beginning on or after April 01, 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

2.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after April 01, 2014.

The municipality has early adopted the standard for the first time in the 2014 annual financial statements.

The impact of the standard is not material.

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after April 01, 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 105: Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after April 01, 2014.

The municipality expects to adopt the standard for the first time in the 2015 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 106: Transfers of functions between entities not under common control

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after April 01, 2014.

The municipality expects to adopt the standard for the first time in the 2015 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 107: Mergers

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after April 01, 2014.

The municipality expects to adopt the standard for the first time in the 2015 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

IGRAP 11: Consolidation – Special purpose entities

An entity may be created to accomplish a narrow and well-defined objective (e.g. to effect a lease, research and development activities or a securitisation of financial assets). Such a special purpose entity ('SPE') may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their management over the operations of the SPE. Frequently, these provisions specify that the policy guiding the ongoing activities of the SPE cannot be modified, other than perhaps by its creator or sponsor (ie they operate on so-called 'autopilot'). The sponsor (or entity on whose behalf the SPE was created) frequently transfers assets to the SPE, obtains the right to use assets held by the SPE or performs services for the SPE, while other parties ('capital providers') may provide the funding to the SPE. An entity that engages in transactions with an SPE (frequently the creator or sponsor) may in substance control the SPE. A beneficial interest in an SPE may, for example, take the form of a debt instrument, an equity instrument, a participation right, a residual interest or a lease. Some beneficial interests may simply provide the holder with a fixed or stated rate of return, while others give the holder rights or access to other future economic benefits or service potential of the SPE's activities. In most cases, the creator or sponsor (or the entity on whose behalf the SPE was created) retains a significant beneficial interest in the SPE's activities, even though it may own little or none of the SPE's net assets.

The Standard of GRAP on Consolidated and Separate Financial Statements requires the consolidation of entities that are controlled by the reporting entity. However, the Standard of GRAP does not provide explicit guidance on the consolidation of SPEs. The issue is under what circumstances an entity should consolidate an SPE. This interpretation of the Standards of GRAP does not apply to post-employment benefit plans or other long-term employee benefit plans to which the Standard of GRAP on Employee Benefits applies.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

A transfer of assets from an entity to an SPE may qualify as a sale by that entity. Even if the transfer does qualify as a sale, the provisions of the Standard of GRAP on Consolidated and Separate Financial Statements and this Interpretation of the Standards of GRAP may mean that the entity should consolidate the SPE. This Interpretation of the Standards of GRAP does not address the circumstances in which sale treatment should apply for the entity or the elimination of the consequences of such a sale upon consolidation.

The effective date of this interpretation is dependent on/in conjunction with the effective date of GRAP105, 106 and 107.

The municipality expects to adopt the interpretation for the first time in the 2015 annual financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures

Paragraph .54 in the Standard of GRAP on Interests in Joint Ventures refers to both contributions and sales between a venturer and a joint venture as follows: 'When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction'. In addition, paragraph 31 in the Standard of GRAP on Interests in Joint Ventures says that 'a jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest'. There is no explicit guidance on the recognition of gains and losses resulting from contributions of non-monetary assets to jointly controlled entities ('JCEs').

Contributions to a JCE are transfers of assets by venturers in exchange for an interest in the net asset in the JCE. Such contributions may take various forms. Contributions may be made simultaneously by the venturers either upon establishing the JCE or subsequently. The consideration received by the venturer(s) in exchange for assets contributed to the JCE may also include cash or other consideration that does not depend on future cash flows of the JCE ('additional consideration').

The issues are:

- when the appropriate portion of gains or losses resulting from a contribution of a non-monetary asset to a JCE in exchange for an interest in the net assets in the JCE should be recognised by the venturer in surplus or deficit;
- how additional consideration should be accounted for by the venturer; and
- how any unrealised gain or loss should be presented in the consolidated

This Interpretation of the Standards of GRAP deals with the venturer's accounting for non-monetary contributions to a JCE in exchange for an interest in the net assets in the JCE that is accounted for using either the equity method or proportionate consolidation.

The effective date of this interpretation is dependent on/in conjunction with the effective date of GRAP105, 106 and 107.

The municipality expects to adopt the interpretation for the first time in the 2015 annual financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements

The definition of 'minority interest' has been amended to 'non-controlling interest', and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107] from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipality expects to adopt the amendment for the first time in the 2015 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 7 (as revised 2010): Investments in Associates

Paragraphs .03 and .42 were amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .22, .28 and .38 and added paragraph .24. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipality expects to adopt the amendment for the first time in the 2015 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 8 (as revised 2010): Interests in Joint Ventures

Paragraph .04 was amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers added paragraph .50 and amended paragraphs .51 and .52. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipality expects to adopt the amendment for the first time in the 2015 annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

The aggregate impact of the initial application of the statements and interpretations on the municipality's annual financial statements is expected to be as follows:

3. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	2,052,890	-	2,052,890	2,052,890	-	2,052,890
Furniture and fixtures	2,079,841	(1,458,810)	621,031	1,983,831	(1,102,324)	881,507
Motor vehicles	10,280,570	(5,819,191)	4,461,379	9,659,130	(4,215,903)	5,443,227
Computer equipment	2,116,484	(1,196,983)	919,501	1,547,123	(831,754)	715,369
Infrastructure assets	939,945,076	(57,996,645)	881,948,431	902,384,916	(40,702,497)	861,682,419
Community	134,282,871	(19,834,495)	114,448,376	134,282,870	(15,528,945)	118,753,925
Other property, plant and equipment	2,686,757	(1,459,074)	1,227,683	2,545,889	(1,126,644)	1,419,245
Work in progress - Infrastructure	153,374,702	-	153,374,702	61,584,015	-	61,584,015
Total	**1,246,819,191**	**(87,765,198)**	**1,159,053,993**	**1,116,040,664**	**(63,508,067)**	**1,052,532,597**

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Other changes, movements	Depreciation	Total
Land & Buildings	2,052,890	-	-	-	2,052,890
Furniture and fixtures	881,507	96,010	(6,904)	(349,582)	621,031
Motor vehicles	5,443,227	621,440	-	(1,603,288)	4,461,379
Computer equipment	715,369	569,573	-	(365,441)	919,501
Infrastructure assets	861,682,419	37,560,157	-	(17,294,145)	881,948,431
Community assets	118,753,925	-	-	(4,305,549)	114,448,376
Other machinery and equipment	1,419,245	140,868	-	(332,430)	1,227,683
Work in progress	61,584,015	91,790,687	-	-	153,374,702
	1,052,532,597	**130,778,735**	**(6,904)**	**(24,250,435)**	**1,159,053,993**

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Depreciation	Total
Land	2,052,890	-	-	2,052,890
Furniture and fixtures	811,829	403,812	(334,134)	881,507
Motor vehicles	3,307,285	3,566,123	(1,430,181)	5,443,227
Computer equipment	627,256	372,515	(284,402)	715,369
Infrastructure assets	710,313,868	165,424,064	(14,055,513)	861,682,419
Community assets	108,031,051	14,805,255	(4,082,381)	118,753,925
Other machinery and equipment	1,739,507	-	(320,262)	1,419,245
Work in progress	-	61,584,015	-	61,584,015
	826,883,686	**246,155,784**	**(20,506,873)**	**1,052,532,597**

Pledged as security

The municipality did not pledge any of its assets as security.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

3. Property, plant and equipment (continued)

All property, plant and equipment is being fully utilised by the municipality. There is therefore no idle property, plant and equipment.

The carrying amount of property, plant and equipment does not materially differ to the fair value of the disclosed property, plant and equipment.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

4. Intangible assets

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	367,226	(53,219)	314,007	-	-	-

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software	-	367,226	(53,219)	314,007

Pledged as security

No restrictions apply to any of the intangible assets of the municipality.

A register containing the information required by section 63 of the Municipal Finance Management Act is availible for inspection at the registered office of the municipality.

5. Inventories

Consumables	1,961,682	1,305,017
Water	-	6,631
	1,961,682	**1,311,648**

Inventory pledged as security

No Inventory was pledged as security

6. Receivables from non-exchange transactions

Employee costs in advance	1,102,232	5,386,201
Unallocated receipts	142,782	5,986,386
	1,245,014	**11,372,587**

7. VAT receivable

South African Revenue Service	-	5,284,058

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

8. Receivables from exchange transactions

Gross balances		
Rates	18,539,037	7,154,720
Electricity	4,315,525	4,483,768
Water	10,982,477	13,155,861
Sewerage	1,218,791	321,902
Refuse	1,011,406	395,415
Service debtors	99,535,554	102,904,769
	135,602,790	**128,416,435**
Less: Allowance for impairment		
Rates	(9,093,712)	(7,165,007)
Electricity	(2,778,126)	(3,276,478)
Water	(10,321,310)	(10,756,414)
Sewerage	(650,316)	(90,567)
Refuse	(798,445)	(217,872)
Service debtors	(87,984,449)	(87,783,876)
	(111,626,358)	**(109,290,214)**
Net balance		
Rates	9,445,325	(10,287)
Electricity	1,537,399	1,207,290
Water	661,167	2,399,447
Sewerage	568,475	231,335
Refuse	212,961	177,543
Service debtors	11,551,105	15,120,893
	23,976,432	**19,126,221**
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	9,445,325	10,287
Net balance	**9,445,325**	**10,287**
Rates		
Current (0 -30 days)	551,668	1,161,495
31 - 60 days	282,417	557,297
61 - 90 days	269,216	549,664
91 - 120 days	246,391	542,433
121 + days	7,752,181	4,343,831
Less impairment	343,452	(7,165,007)
	9,445,325	**(10,287)**
Electricity		
Current (0 -30 days)	549,255	384,856
31 - 60 days	269,282	272,613
61 - 90 days	297,704	172,388
91 - 120 days	367,859	252,230
121 + days	53,299	3,401,681
Less impairment	-	(3,276,478)
	1,537,399	**1,207,290**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

8. Receivables from exchange transactions (continued)

Water		
Current (0 -30 days)	-	3,141,865
31 - 60 days	661,167	516,099
61 - 90 days	-	655,251
91 - 120 days	-	743,076
121 + days	-	8,099,570
Less impairment	-	(10,756,414)
	661,167	**2,399,447**
Sewerage		
Current (0 -30 days)	302,522	212,577
31 - 60 days	142,816	8,686
61 - 90 days	110,739	7,926
91 - 120 days	12,398	7,525
121 + days	-	85,187
Less impairment	-	(90,566)
	568,475	**231,335**
Refuse		
Current (0 -30 days)	60,301	148,666
31 - 60 days	78,944	16,208
61 - 90 days	73,716	15,354
91 - 120 days	-	14,818
121 + days	-	200,369
Less impairment	-	(217,872)
	212,961	**177,543**
Other (specify)		
Current (0 -30 days)	737,371	14,783,989
31 - 60 days	751,885	4,948,489
61 - 90 days	1,110,181	203,346
91 - 120 days	5,485	3,992
121+ days	8,946,183	82,964,952
Less impairment	-	(87,783,875)
	11,551,105	**15,120,893**

Figures in Rand	2014	2013

8. Receivables from exchange transactions (continued)

Summary of debtors by customer classification

Consumers/Other		
Current (0 -30 days)	3,782,152	16,879,577
31 - 60 days	2,219,127	5,362,561
61 - 90 days	2,228,137	548,779
91 - 120 days	1,279,410	415,167
121 + days	118,570,099	87,894,129
Less impairment	(60,037,883)	(15,635,291)
	68,041,042	95,464,922
Less: Allowance for impairment	-	(78,174,783)
	68,041,042	**17,290,139**
Industrial/ commercial		
Current (0 -30 days)	1,868	1,928,381
31 - 60 days	765	945,468
61 - 90 days	1,509	1,043,582
91 - 120 days	1,419	1,135,247
121 + days	32,561	10,995,188
Less impairment	(35,218)	(1,774,143)
	2,904	14,273,723
Less: Allowance for impairment	-	(12,631,120)
	2,904	**1,642,603**
National and provincial government		
Current (0 -30 days)	98	1,025,488
31 - 60 days	48	11,363
61 - 90 days	47	11,568
91 + days	47	13,661
121 + days	5	206,274
> 365 days	(245)	(895,387)
	-	372,967
Less: Allowance for impairment	-	(179,489)
	-	**193,478**
Total		
Current (0 -30 days)	3,784,118	19,833,447
31 - 60 days	2,219,939	6,319,392
61 - 90 days	2,229,694	1,603,929
91 - 120 days	1,068,289	1,564,075
121 + days	118,602,666	99,095,591
Less impairment	-	(18,304,821)
	127,904,706	110,111,613
Less: Allowance for impairment	(103,928,274)	(90,985,392)
	23,976,432	**19,126,221**
Less: Provision for debt impairment		
Balance at beginning of the year	(109,290,214)	(56,089,223)
Contributions to allowance	(2,336,144)	(53,200,991)
	(111,626,358)	**(109,290,214)**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

8. Receivables from exchange transactions (continued)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(109,290,214)	(56,089,223)
Contributions to allowance	(2,336,144)	(53,200,991)
	(111,626,358)	**(109,290,214)**

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Short-term deposits	20,574,304	2,008,111
Bank overdraft	(5,870,883)	(4,576,564)
	14,703,421	**(2,568,453)**
Current assets	20,574,304	2,008,111
Current liabilities	(5,870,883)	(4,576,564)
	14,703,421	**(2,568,453)**

The municipality had the following bank accounts

Account description / number	Bank statement balances			Cash book balances		
	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2014	June 30, 2013	June 30, 2012
Primary Bank Account ABSA Bank Limited - Current account - 4054 38 5292	1,651,603	21,081	770,160	1,635,548	21,081	11,292,171
Standard bank	1,444,403	-	-	(17,191,204)	-	-
Call Investment Deposits ABSA Bank Limited - 32 Day Notice Deposit - 90 9988 9345	-	-	1,987,252	-	-	1,987,252
ABSA Bank Limited - Call Deposit - 90 9268 8429	-	3,547	3,159	-	3,547	3,159
ABSA Bank Limited - Call Deposit - 91 5245 5805	-	2,552	2,276	-	2,552	2,276
ABSA Bank Limited - Call Deposit - 92 7930 6228	-	1,000	-	-	1,000	-
Standard Bank - Call Deposit - 54 8529973 001	-	-	4,714	-	-	4,714
First National Bank - Call Deposit - 62 2471 177 09	3,205	-	3,194	-	-	3,194
Total	**3,099,211**	**28,180**	**2,770,755**	**(15,555,656)**	**28,180**	**13,292,766**

Notes to the Annual Financial Statements

Figures in Rand		2014	2013

10. Other financial liabilities

At amortised cost			
Development Bank of South Africa		627,492	2,647,662
Loan number:	101251/1		
Starting date:	01/07/2007		
Redemption date:	30/06/2017		
Capital and Interest repayment frequency:	6 Months		
Interest rate:	1.000% (Fixed)		
Development Bank of South Africa		2,309,959	1,514,969
Loan number:	101797/1		
Starting date:	01/07/2011		
Redemption date:	30/06/2027		
Capital and Interest repayment frequency:	6 Months		
Interest rate:	8.848% (Fixed)		
		2,937,451	**4,162,631**
Total other financial liabilities		**2,937,451**	**4,162,631**
Non-current liabilities			
At amortised cost		2,309,959	3,535,993
Current liabilities			
At amortised cost		627,492	626,638

11. Unspent conditional grants and receipts

In the current year the municipality does not have unspent conditional grants because all the allocated grants were fully utilized.

See note 20 for reconciliation of grants from National and Provincial Government.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

12. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Additions	Total
Landfill site provision	1,584,925	298,645	1,883,570
Long service award provision	611,334	81,633	692,967
	2,196,259	**380,278**	**2,576,537**

Reconciliation of provisions - 2013

	Opening Balance	Additions	Change in discount factor	Total
Landfill site provision	1,243,676	-	341,249	1,584,925
Long service award provision	519,274	92,060	-	611,334
	1,762,950	**92,060**	**341,249**	**2,196,259**

Non-current liabilities	1,883,570	1,551,210
Current liabilities	692,967	645,049
	2,576,537	**2,196,259**

Environmental rehabilitation provision

In terms of the licencing of the landfill refuse sites, the municipality will incur licensing and rehabilitation costs. A valuation was performed by independent experts and the related report is available for inspection at the municipal main offices.

Long service award provision

Discount Rate: IAS19 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant and as prescribed in GRAP25, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 7.66% per annum has been used. This rate does not reflect any adjustment for taxation. This is derived by using a liability-weighted average of the yields corresponding to the average term until payment of long service awards, for each employee. The corresponding liability-weighted index-linked yield is 1.13%. These rates do not reflect any adjustment for taxation.

13. Payables from exchange transactions

Trade payables	11,292,124	27,948,577
Debtors with credit balances	7,300,011	7,884,247
Accrued interest	10,029	11,520,700
Accruals	2,413,309	7,538,660
Deposits received	400	400
Other payables	19,419,638	33,913,840
Sundry deposits	668,935	668,935
Retention fees	500,677	190,314
Accrued leave pay	1,862,475	483,903
13th Cheque accrual	1,126,416	705,922
	44,594,014	**90,855,498**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

14. VAT payable

South African Revenue Service	526,114	-

15. Financial instruments disclosure

Categories of financial instruments

2014

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	23,976,432	23,976,432
Other receivables from non-exchange transactions	1,245,014	1,245,014
	25,221,446	**25,221,446**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	44,594,018	44,594,018
Bank overdraft	5,870,883	5,870,883
Other financial liability	3,536,392	3,536,392
	54,001,293	**54,001,293**

16. Consumer deposits

The fair value of consumer deposits appoximate their carrying value. Interest is not paid on these ammounts.

17. Revenue

Government grants & subsidies	201,729,305	206,771,558
Interest received (trading)	3,726,728	3,384,666
Interest received - investment	259,686	123,399
Property rates	3,370,642	6,925,260
Public contributions and donations	15,000	668,745
Rental of facilities and equipment	99,655	171,113
Service charges	12,505,386	17,231,914
Other income - (rollup)	1,007,351	2,627,224
	222,713,753	**237,903,879**

The amount included in revenue arising from exchanges of goods or services are as follows:

Interest received (trading)	3,726,728	3,384,666
Interest received - investment	259,686	123,399
Rental of facilities and equipment	99,655	171,113
Service charges	12,505,386	17,231,914
Other income	1,007,351	2,627,224
	17,598,806	**23,538,316**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

17. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	3,370,642	6,925,260
Transfer revenue		
License fees - motor vehicles	201,729,305	206,771,558
Public contributions and donations	15,000	668,745
	205,114,947	**214,365,563**

18. Property rates

Rates received

Agricultural	31,677,671	29,607,777
Commercial	186,949	158,686
Residential	277,511	370,689
Less: Rebates	(28,771,489)	(23,211,892)
	(28,493,978)	(22,841,203)
	3,370,642	**6,925,260**

Property rates are levied monthly on a fair market value on properties and are payable the 1st working day of each month.

Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.

19. Service charges

Sale of electricity	4,914,111	5,177,111
Sale of water	5,314,596	10,261,715
Solid waste	837,861	652,175
Sewerage and sanitation charges	1,438,818	1,140,913
	12,505,386	**17,231,914**

20. Government grants and subsidies

Operating grants		
Equitable share	71,227,000	67,506,000
Finance Management Grant (FMG)	1,550,000	1,500,000
Library Grant	590,000	222,500
Municipal Systems Improvements Grant (MSIG)	890,000	800,000
	74,257,000	70,028,500
Capital grants		
ACIP sanitation	9,832,306	6,097,793
Expanded Public Works Program	2,495,910	5,705,335
Housing grant	-	8,188,287
Municipal Infrastructural Grant (MIG)	55,253,000	56,479,000
Rural Household Infrastsructure Grant	43,435,847	58,397,643
Water Operation and Subsidy Grant	8,000,000	1,875,000
Government grant (capital) 6	8,455,242	-
	127,472,305	136,743,058
	201,729,305	**206,771,558**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

20. Government grants and subsidies (continued)

Equitable Share

The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.

Finance Management Grant (FMG)

Current-year receipts	1,550,000	1,500,000
Conditions met - transferred to revenue	(1,550,000)	(1,500,000)
	-	-

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns)

Library Grant

Current-year receipts	590,000	222,500
Conditions met - transferred to revenue	(590,000)	(222,500)
	-	-

The grant is received from the provincial Department of Sport, Arts and Culture to transform urban and rural community library infrastructure, facilities and services throguh a recapitalised programme at provincial level in support of local government and national initiatives.

Municipal Systems Improvement Grant (MSIG)

Current-year receipts	890,000	800,000
Conditions met - transferred to revenue	(890,000)	(800,000)
	-	-

This grant was used to assist in building capacity in the district and local municipalities to ensure that the new developmental system of local government is fully implemented.

ACIP Sanitation

Current-year receipts	9,832,306	6,097,793
Conditions met - transferred to revenue	(9,832,306)	(6,097,793)
	-	-

This grant is used for the improvement of the social welfare of the community.

Expanded Public Works Program

Current-year receipts	2,495,910	5,705,335
Conditions met - transferred to revenue	(2,495,910)	(5,705,335)
	-	-

The grant is used for public works progrmmes focus on job creation through implementation of labour intensive projects..

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

20. Government grants and subsidies (continued)

Housing Grant

Current-year receipts	-	8,188,287
Conditions met - transferred to revenue	-	(8,188,287)
	-	-

This grant is utilised to provide funding for the creation of sustainable human settlements.

Municipal Infrastructure Grant (MIG)

Current-year receipts	55,253,000	56,479,000
Conditions met - transferred to revenue	(55,253,000)	(56,479,000)
	-	-

MIG is a conditional grant that was established to address national priorities regarding municipal infrastructure that may not be realised through unconditional grants such as equitable share. Among other conditions no MIG funds may be spent outside the framework of the municipality's pre-existing Integrated Development Plan and its approved budget.

Rural Household Infrastructure Grant

Current-year receipts	43,435,847	58,397,643
Conditions met - transferred to revenue	(43,435,847)	(58,397,643)
	-	-

To provide specific capital funding for the reduction of rural sanitation backlogs and to target existing households where bulk-dependent services are not viable.

Water Operation and Subsidy Grant

Current-year receipts	8,000,000	1,875,000
Conditions met - transferred to revenue	(8,000,000)	(1,875,000)
	-	-

The subsidy is utilised to subsideise, refurbish and restore the functionality of water services schemes previously owned and/or operated by the Department of Water Affairs or by other agencies on behalf of the department.

Kumba Iron Ore SLP (Other grants)

Current-year receipts	8,455,242	-
Conditions met - transferred to revenue	(8,455,242)	-
	-	-

The purpose of the grant is to ensure that holders of mining or production rights contribute towards the socio economic development of the areas in which they operate.

21. Public contributions and donations

Public contributions and donations	15,000	668,745

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

22. Other revenue

Other income - (rollup)	1,007,351	2,627,224

23. Other income

Admin charges	-	2,965
Cemetery fees	214	329
Connection fees	19,667	37,949
Grading fees	-	23,254
Insurance claims received	-	609,298
Miscellaneous income	132,222	1,901,449
Skills development claims income	25,501	-
Profit on disposal of assets	663,018	-
Other water charges	59,561	-
Photocopies	9,076	9,036
Rental income	252	2,267
Telephone cost reclaimed	29,133	(26,804)
Tender documents	68,707	67,481
	1,007,351	**2,627,224**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

24. General expenses

Advertising	492,959	674,825
Auditors remuneration	4,790,785	1,186,589
Bank charges	138,612	79,144
Capacity buildings	57,901	137,950
Cemetries	9,000	-
Chemicals	-	38,574
Cleaning	73,237	56,376
Community development and training	2,691,580	4,327,492
Community participation	578,638	605,867
Computer expenses	-	47,425
Conferences and seminars	6,390	18,967
Consulting and professional fees	8,361,939	13,123,874
Departmental expenses	3,278,574	6,316,622
Disaster assistance	-	14,438
Electricity consumption	362,590	-
Entertainment	436,927	456,725
Fuel and oil	5,170,280	3,192,732
Horticulture	47,800	-
Incorporation costs	2,325	-
Indigent subsidies	2,723,620	3,269,644
Insurance	427,573	-
Magazines, books and periodicals	319,546	243,696
Motor vehicle expenses	693,542	3,629,873
Name branding	55,223	45,700
Packaging	-	14,747
Pest control	39,500	-
Postage and courier	12,747	27,700
Printing and stationery	-	340
Pump operation cost	1,360,400	1,163,126
Security	968,695	796,978
Small, medium and micro enterprises support	107,650	98,032
Stores and materials	770,601	-
Subscriptions and membership fees	450,193	551,890
Telephone and fax	3,281,021	2,663,558
Training	(3,483)	62,518
Travel and subsistence	2,962,448	2,983,512
Uniforms	29,781	2,188
Valuation roll expenses	1,131,025	-
Ward committee expenses	1,309,372	(11,260)
	43,138,991	**45,819,842**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

25. Employee related costs

Basic	20,712,615	14,380,242
Bonus	1,678,566	950,062
Medical aid contributions	2,170,227	1,762,427
Unemployment Insurance Fund	206,598	188,067
Industrial Council Levy	436,615	163,576
Skills Development Levy	672,951	215,295
Leave pay provision charge	-	(1,184,047)
Post-employment benefits - Pension Fund Contributions	3,498,073	2,466,260
Overtime	1,512,764	1,056,140
Long-service awards	-	92,060
Transport allowance	5,108,344	3,434,115
Housing benefits and allowances	519,226	341,159
Cell phone allowances	497,857	607,648
Non-Pensionable allowances	10,936	17,061
	37,024,772	**24,490,065**

Remuneration of Municipal Manager

Remuneration	573,210	462,808
Cell phone allowance	13,800	-
Subsistance allowance	-	27,000
Transport allowance	385,541	334,500
Other	141,600	71,247
	1,114,151	**895,555**

Mr T.M. Bloom was appointed as municipal manager on 2 February 2012, he was still the active municipal manager on year end.

Remuneration of Chief Finance Officer

Remuneration	471,970	385,000
Transport allowance	215,910	180,000
Other	65,000	60,000
Cell phone allowance	13,800	11,000
Back pay	-	31,843
	766,680	**667,843**

Mrs. B.D..Motlhaping was appointed as chief financial officer on 1 June 2012, she was still the active chief financial officer on year end.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

25. Employee related costs (continued)

Remuneration of the Corporate services manager

Remuneration	479,506	358,415
Housing subsidy	-	3,733
Transport allowance	269,214	212,194
Contributions to Pension Fund	-	1,417
Cell phone allowance	21,427	-
Other	23,422	19,880
	793,569	**595,639**

Remuneration of the Community service manager

Remuneration	427,283	343,297
Housing subsidy	-	5,600
Transport allowance	218,086	202,115
Back pay	-	6,301
Other	1,417	12,750
	646,786	**570,063**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

25. Employee related costs (continued)

Remuneration of the Technical services manager

Annual Remuneration	394,883	110,833
Housing subsidy	-	28,833
Transport allowance	208,991	56,333
Other	150,196	12,333
Cell phone allowance	11,600	2,000
	765,670	**210,332**

Remuneration of the Local Economic Development and Planning manager

Annual Remuneration	553,342	330,665
Housing subsidy	-	5,600
Transport allowance	224,000	189,960
Other	22,400	11,332
Cell phone allowance	-	1,417
Back pay	-	5,801
	799,472	**544,775**

26. Remuneration of councillors

Mayor	640,624	532,085
Speaker	514,146	501,324
Councillors	6,348,990	5,684,776
	7,503,760	**6,718,185**

In-kind benefits

The Executive Mayor has use of a Council owned vehicle for official duties.

The Mayor has a full-time secretary and driver at the expense of the municipality.

27. Debt impairment

Debt impairment	2,336,145	32,577,505

28. Interest received

Interest revenue		
Current accounts	259,686	123,399

29. Repairs and maintenance

Repairs and maintenance	17,630,062	10,739,358

30. Depreciation and amortisation

Property, plant and equipment	24,303,652	20,506,873
Intangible assets	22,626	-
	24,326,278	**20,506,873**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
31. Finance costs		
Current borrowings	185,630	69,224
Other	46,463	26,420
	232,093	**95,644**
32. Auditors' remuneration		
Fees	4,790,785	1,186,589
33. Rental of facilities and equipment		
Premises		
Premises	17,285	3,937
Facilities and equipment		
Rental of facilities	82,370	167,176
	99,655	**171,113**
34. Contracted services		
Specialist Services	168,200	82,111
35. Grants and subsidies paid		
Grants and subsidies paid	13,704,816	115,727,061
36. Bulk purchases		
Electricity	7,002,272	2,193,742
Water	4,015,678	6,732,721
	11,017,950	**8,926,463**

Bulk purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Eskom whilst water is purchased from Rand Water.

37. Cash generated from operations		
Surplus (deficit)	65,045,988	(32,207,223)
Adjustments for:		
Depreciation and amortisation	24,326,278	20,506,873
Debt impairment	2,336,145	32,577,505
Movements in provisions	380,278	433,309
Other non-cash items -	95,714,447	49,686,439
Changes in working capital:		
Inventories	(650,034)	809,825
Receivables from non-exchange transactions	10,127,573	(789,624)
Consumer debtors	(7,186,356)	(31,854,760)
Payables from exchange transactions	(46,261,475)	(6,773,192)
VAT	5,810,171	8,314,514
Unspent conditional grants and receipts	-	(17,062,677)
	149,643,015	**23,640,989**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

38. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	57,058,000	26,658,826

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

39. Contingencies

As at year-end, the municipality was not involved in any litigation claims. Therefore no contingent liabilities or assets are disclosed.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

40. Related parties

Other than the related parties indicated in note 25 and their close family members the municipality does not have any other related parties. No transactions occurred with related parties during the reporting period.

41. Accounting Officer's emoluments

Executive

2014

	Emoluments	Total
Mr. T.M. Bloom	1,114,151	1,114,151

2013

	Emoluments	Total
Mr. T.M. Bloom	895,554	895,554

42. Prior period errors

Property, Plant and Equipment registers were re-compiled retrospectively. The impact is that the previous assets were taken out of the accounting records and replaced with new values.

All the prior year adjustments in the Statement of Financial Performance (except depreciations which is re-stated due to asset register being re-done) are corrections of re-classifications errors made in the previous year annual financial statements.

Statement of financial position		
Property, plant and equipment	-	8,720,899
Intangible assets	-	22,626
Statement of Financial Performance		
Other income	-	447,758
Property rates	-	(138,876)
Government grants and subsidies	-	(8,188,287)
Public contributions and donations	-	(668,745)
Contracted services	-	82,111
Depreciation and amortisations	-	(5,662,411)
Personnel cost	-	341,159
General expenses	-	(3,239,561)
Grants and subsidies paid	-	7,847,127
Repairs and maintenance	-	3,167,951

43. Risk management

Capital risk management

The capital structure of the municipality consist of the debt, cash and cash equivalent and equity as disclosed in the Statement of Financial Position.

There are no externally imposed capital requirements

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

43. Risk management (continued)

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

As the municipality has no significant interest - bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rate.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to a fair interest rate risk. Municipality is to maintain all of itss borrowings in a fixed rate instruments.

Credit risk

Credit risk consist mainly of cash deposit, cash equivalents, derivative financial instruments and trade debtors. The municipality has only deposits cash with major banks with high quality credit standing and limits exposure to any one counter - party

Trade receivables comprise a widespread customer base. The municipality does not perform an evaluation of the credit risk relating to its customers and therefore risk limits are not set.

44. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

45. Events after the reporting date

The municipality is unaware of any events after the reporting date which required disclosure and or adjusting events.

46. Unauthorised expenditure

Opening balance	201,183,198	146,565,065
Additions: Unauthorised Expenditure	42,241,107	54,618,133
Less: Unauthorised expenditure awaiting condonement by council	(201,183,198)	-
	42,241,107	**201,183,198**

The above unauthorised expenditure is within the votes and is as a result of overspending on various votes on the budget, therefore the total approved expenditure is overspend. This is unauthorised expenditure was tabled to council in accordance with section 23 (6) of the Budget and Reporting Regulations.

47. Fruitless and wasteful expenditure

Opening balance	870,925	499,199
Additions: Interest and penalties	82,577	371,726
Awaiting condonement by council	(953,502)	-
Closing balance	**-**	**870,925**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

48. Irregular expenditure

Opening balance	12,300,350	2,694,475
Add: Deviations from SCM procedures	-	9,605,875
Less: Irregular expenditure awaiting condonement by council	(11,029,996)	-
	1,270,354	**12,300,350**

The Irregular expenditure listed above arouse as a result of various non - compliances to the Supply Chain Regulation as well as non - compliance to the Supply Chain Policy of the municipality. Further explainations and descriptions are listed in the Deviation registers. The amount of R 11,029,000 was approved by Council for write-off in the current financial year.

49. Additional disclosure in terms of Municipal Finance Management Act

Distribution losses

Audit fees

Current year subscription / fee	4,790,785	1,186,489

PAYE and UIF

Current year subscription / fee	5,983,547	4,621,560
Amount paid - current year	(5,983,547)	(4,923,796)
Amount paid - previous years	-	302,236
Closing balance	**-**	**-**

VAT

VAT receivable	-	5,284,058
VAT payable	526,114	-
	526,114	**5,284,058**

VAT output payables and VAT input receivables are shown in note.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

None of Joe Morolong Local Municipality's Councillors have consumer accounts in arrears as at year end.

50. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

A complete register of all the diviations from the supply chain management regulations is available for inspection at the registered office of the municipality.

51. Budget differences

Material differences between budget and actual amounts

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

51. Budget differences (continued)

Differences above 10% between the revised budget and actual amounts are considered material. Explanations for the material differences are as follows

Service charges - The difference of R 2,3 million between budgeted and actual amounts was due to

Interest received (trading) - The municipality was conservative in budgeting for interest revenue due to slow payment of accounts by consumers. The actual interest is based on prime plus 1% on outstanding accounts. This was not so on the budget.

Property rates - The difference of R 8m is due to rebates given to farmers in the municipal area.

Government grants and subsidies - The difference of R 102m was due to the fact that some of the grants for instance the grants from the mines are not budgeted for. These were finalised after the budget process and hence cuased a difference between budget and actual amounts.

Personnel cost - The difference of R 2m is due to the fact that the municipality employed general workers in the technical department during the current year which was not in the budget.

Remuneration of Councillors - The difference of R 1,1m over the budget is because councillor remuneration budget is based on old upper limits while the gazzette is received in December which is the middle of the financial year.

Depreciation - The excess of actual expenditure over the final budget of R 21m is due to the fact that the asset register was restated and the process was completed after the finalisation of the main and adjustment budget. The depreciation figures were finalised close to year end and this information was not available during budget process. Additional text

Debt impairment - The excess of R 2m over budget is because the debt impairment AFS figures are only finalised at year end while the budget information did not use the same basis for calcuation of provision.

Repairs and maintenance, Contracted services, Grants and subsidies paid and General expenses - The difference of R 15m for these items is mainly due to emergency expenses for instance most stand-pipes in vallages have been vandalised and excessive costs relating to addressing the issue was not budgeted for and resulted in high general expenses and repairs. Similar other instances occured which resulted in actual expenditure being in excess of the budget figueres.

51. Budget differences (continued)

Inventories - Inventory levels at year end were higher than anticipated resulting in difference of R 600k.

Cash and cash equivalents - Surplus cash was invested in short-term call accounts which was not budgeted for. This resulted in the difference of R 17m over the budgeted cash investment levels.

Property, plant and equipment - The asset register of the municipality was re-compiled and the process completed close to the end of the financial year. The budget figures were based on the old asset register which resulted in the difference of R 102m over budget.

Payables from exchange transactions - The budget figures for payables did not include all payablesbut only trade payables while the AFS includes all other payables like accruals etc.

Provisions - The provisions budget was excessive and a provisional figure used in the budget. Key assumptions used to calculate provisions were finalised during compilation of annual financial statements hence the large difference of R 8m between budget and actual amount.

Bank Overdraft - The bank overdraft in the cash book of R 5m was not budgeted for as the municipality does not have overdraft facility with the bank. However, large payments were loaded onto the cash book at year end which had not yet gone through the bank at that date resulting in the overdraft of R 5m on the system.

Other financial liabilities - The difference fo R 5m between budget and actual figures is that the municipality paid off the DBSA loan significantly faster than anticipated and the liability at year end is less than R3m compared to the budgeted R 7,7m.

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of the municipality preparing and presenting an adjustment budget in accordance with the MFMA.

Joe Morolong Local Municipality
Appendix A
June 2014

Schedule of external loans as at 30 June 2014

	Loan Number	Redeemable	Balance at Sunday, June 30, 2013 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at Monday, June 30, 2014 Rand	Short-term portion Rand	Long-term portion Rand
Development Bank of South Africa								
DBSA @ 8.848%	61 000 368	30/06/2027	1,514,969	-	195,149	1,319,820	-	1,487,639
DBSA @ 1%	61 000 239	01/07/2017	2,647,662	-	589,423	2,058,239	-	1,737,650
			4,162,631	**-**	**784,572**	**3,378,059**	**-**	**3,225,289**
Total external loans								
Development Bank of South Africa			4,162,631	-	784,572	3,378,059	-	3,225,289
			4,162,631	**-**	**784,572**	**3,378,059**	**-**	**3,225,289**

Joe Morolong Local Municipality

Joe Morolong Local Municipality

Appendix B

June 2014

Analysis of property, plant and equipment as at 30 June 2014

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Work in progress														
Infrastructure	61,584,015	91,790,687	-	-	-	-	**153,374,702**	-	-	-	-	-	-	153,374,702
	61,584,015	**91,790,687**	-	-	-	-	**153,374,702**	-	-	-	-	-	-	**153,374,702**
Specialised vehicles														
Other assets														
Computer Equipment	715,369	569,573	-	-	-	-	**1,284,942**	-	-	-	(365,441)	-	**(365,441)**	919,501
Furniture & Fittings	881,507	96,010	-	-	-	(6,904)	**970,613**	-	-	-	(349,582)	-	**(349,582)**	621,031
Motor vehicles	5,443,227	621,440	-	-	-	-	**6,064,667**	-	-	-	(1,603,288)	-	**(1,603,288)**	4,461,379
Other	1,419,245	140,868	-	-	-	-	**1,560,113**	-	-	-	(332,430)	-	**(332,430)**	1,227,683
	8,459,348	**1,427,891**	-	-	-	(6,904)	**9,880,335**	-	-	-	**(2,650,741)**	-	**(2,650,741)**	**7,229,594**
Total property plant and equipment														
Land and buildings	7,169,290	-	-	-	-	-	**7,169,290**	-	-	-	-	-	-	7,169,290
Infrastructure	861,682,419	37,560,157	-	-	-	-	**899,242,576**	-	-	-	(17,294,145)	-	**(17,294,145)**	881,948,431
Community Assets	113,637,525	-	-	-	-	-	**113,637,525**	-	-	-	(4,305,549)	-	**(4,305,549)**	109,331,976
Work in progress	61,584,015	91,790,687	-	-	-	-	**153,374,702**	-	-	-	-	-	-	153,374,702
Other assets	8,459,348	1,427,891	-	-	-	(6,904)	**9,880,335**	-	-	-	(2,650,741)	-	**(2,650,741)**	7,229,594
	1,052,532,597	**130,778,735**	-	-	-	(6,904)	**1,183,304,428**	-	-	-	**(24,250,435)**	-	**(24,250,435)**	**1,159,053,993**
Agricultural/Biological assets														
Intangible assets														
Investment properties														
Total														
Land and buildings	7,169,290	-	-	-	-	-	**7,169,290**	-	-	-	-	-	-	7,169,290
Infrastructure	861,682,419	37,560,157	-	-	-	-	**899,242,576**	-	-	-	(17,294,145)	-	**(17,294,145)**	881,948,431
Community Assets	113,637,525	-	-	-	-	-	**113,637,525**	-	-	-	(4,305,549)	-	**(4,305,549)**	109,331,976
Work in progress	61,584,015	91,790,687	-	-	-	-	**153,374,702**	-	-	-	-	-	-	153,374,702
Other assets	8,459,348	1,427,891	-	-	-	(6,904)	**9,880,335**	-	-	-	(2,650,741)	-	**(2,650,741)**	7,229,594
	1,052,532,597	**130,778,735**	-	-	-	(6,904)	**1,183,304,428**	-	-	-	**(24,250,435)**	-	**(24,250,435)**	**1,159,053,993**